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Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 FTC-01 INT-05 AID-05 CIAE-00
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FM AMEMBASSY LONDON
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FOR: EB/ISM - WALTER LENAHAN

E.O. 11652: N/A
TAGS: EMIN, ETRD
SUBJECT: LONDON COMMODITY TRADING -- LME ADOPTS MONITOR-
ING SCHEME

REF: LONDON A-325 L977

PASS CFTC

1. ACCORDINQ TO THE FEBRUARY 15 EDITION OF THE FINANCIA TIMES, A SPECIAL MEETIN OF RING-DEALING MEMBERS OF THE LONDON METAL EXCHANGE ON FEBRUARY 14 UNANIMOUSLY APPROV-ED PLANS FOR THE INTRODUCTION OF A MONITORING SCHEME DESIGNED TO LIMIT THE FINANCIAL VULNERABILITY OF THIS IMPORTANT METALS MARKET. THE REPORT CONTINUES THAT IT IS HOPED THE SCHEME WILL BE IN OPERATION BY OCTOBER 1, ALTHOUGH THERE IS A OOSSIBILITY THAT THIS WILL NOT HAPPEN BEFORE JANUARY 1, 1979.

2. COMMENT: THE LME IS BOTH A PHYSICALS AND A FUTURES MARKET FOR TRADE IN TIN, COPPER, LEAD, ZINC AND SILVER.
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THE LME HAS NEVER MAINTAINED A CLEARING HOUSE, RATHER IT HAS OPERATED ON A BASIS OF PRINCIPALS CONTRACTS BETWEEN RING-DEALING MEMBERS AND HAS DEPENDED IMPORTANTLY UPON THE FINANCIAL INTEGRITY OF THE INDIVIDUAL FIRMS SO REPRESENTED.

3. THE NEW MONITORING SCHEME STILL FALLS SHORT OF BEING

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A CLEARING HOUSE. THE PLAN IS TO HAVE DAY BY DAY COMPUTER MONITORING OF TRADE, WITH THE COMPUTER PROGRAM-ED TO THROW OUT THE ACCOUNTS OF DEALERS WHO HOLD POSITIONS INORDINATELY LARGE WITH OTHER DEALERS. SUCH CASES WILL THEN BE REFERRED TO A COMMITTEE OF THREE MEMBERS WHO WILL DETERMINE WHETHER AND HOW MUCH ADDITIONAL SECURITY MUST BE PUT UP AS GUARANTEE. (THE FT ARTICLE NOTES THAT UNDER THIS SCHEME RING-DEALING MEMBERS MUST PUT UP A MINIMUM GUARANTEE OF POUNDS STERLING 500,000).

4. ACCORDING TO BANK OF ENGLAND SOURCE (GUNN), THE DELAY IN PUTTING THE SCHEME INTO OPERATION IS DUE TO THE DIVERSITY OF ACCOUNTING METHODS USED BY VARIOUS FIRMS CONCERNED AND THE DIFFICULTY IN WORKING OUT ALL THE SNAGS IN A COMPUTER PROGRAM. IT IS INTERESTING THAT THE LME HAS AGREED THAT THE INTERNATIONAL COMMODITY CLEARING HOUSE (ICCH), A MODERN FACILITY WHICH PROVIDES CLEARING HOUSE SERVICES TO THE SOFT COMMODITY MARKETS, WILL ADMINISTER THE LME'S SCHEME.

5. THE BANK OF ENGLAND FOR SOME TIME HAS BEEN INTEREST ED IN DEVELOPING BETTER GUARANTEES FOR THE LME AND HAS PUSHED LME MEMBERS, HOWEVER RELUCTANTLY, IN THE DIREC-TION OF A CLEARING HOUSE ARRANGEMENT. GUNN TOLD THE EMBASSY THAT THE BANK WAS QUITE PLEASED WITH THE LME'S LIMITED OFFICIAL USE

DECISION YESTERDAY WHICH WAS THE CAPSTONE OF SOMETHING LONG IN GESTATION. HE WAS RELUCTANT TO CHARACTERIZE THE MOVE AS A HALF-WAY STEP TOWARD A FULL CLEARING HOUSE. RATHER HE SAID THE BANKS POSITION WAS TO TAKE A GOOD HARD LOOK AT THE SYSTEM ONCE IT WAS IN OPERATION AND JUDGE IT ON ITS OWN MERITS.

STREATOR

NNN

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